



OXFORD ANALYTICA

TURKEY

MONETARY TRANSPARENCY

Country Report 2005

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TURKEY



COMPLIANCE RATINGS

<i>Monetary transparency</i>	2005	2004	2003	2002
Clarity of roles	••••	••••	••••	••••
Open decision process	••••	••••	••••	••••
Availability of information	••••	••••	••••	••••
Accountability	••••	••••	••••	••••
Score	4.00	4.00	4.00	4.00

OUTLOOK & COMMENTARY

The Central Bank of Turkey (CBT) has continued to consolidate its independence. Transparency increased at the start of this year, when the Monetary Policy Committee (MPC) began meeting at pre-announced, regular dates. Press statements are released in a timely fashion on the decisions made in each monthly meeting. Both the meeting schedule and the MPC statements are now published on the CBT website.

Formal inflation targeting will begin in January 2006, making a number of improvements to the transparency of the Central Bank. Inflation targets will be set on a three-year rolling basis. Targets of 5%, 4% and 4% have been set for 2006, 2007 and 2008, respectively, and the target for 2009 will be announced at the end of 2006. The new framework will also see the publication of a quarterly inflation report where short-term analysis and longer term forecasting are made publicly available.

EXECUTIVE SUMMARY

4.00 Compliance in progress

The roles and responsibilities for monetary policy are set out in the Central Bank Law of 2001. The division of responsibilities between the government and the Central Bank of Turkey (CBT) provided for in this law has been tested for more than three years now and is working well. The CBT's Monetary Policy Committee (MPC) is given *de jure* responsibility in drawing up monetary policy, and it is unlikely that the government will enact any laws that could challenge the central bank's independence.

The openness of the policy-making process continues to improve. Implicit inflation targeting is in place and formal targeting will begin in January 2006. After much analysis, the CBT announced the details of its inflation targeting policy on 5 December 2005. Inflation targets will be set on a three-year rolling basis; quarterly targets have also been set for 2006, but the year-end target will be the main priority.

Since the start of 2005, the Monetary Policy Committee (MPC) has been meeting regularly under the chairmanship of the CBT Governor on the 8th of each month to discuss the developments in inflation and the economy. Press statements are released in a timely fashion on the decisions made in each monthly meeting. Under formal inflation targeting, procedures will alter slightly; the interest rate decision will be announced immediately afterwards together with a short explanation. A 'summary of the meeting' will then be published within five days, which may evolve into the publication of full minutes and voting records, although this will not happen initially.

Overall, the CBT is highly transparent. It produces comprehensive data and information on its activities and complies with the IMF Special Data Dissemination Standard (SDDS). Its website contains a comprehensive and growing volume of regularly updated data in addition to the central bank's own balance sheet. The CBT governor testifies regularly to parliament; the CBT also publishes monthly inflation reports and monetary policy reports.

The CBT is externally audited and, in addition, its internal audit capacity has improved -- although there is no formal relationship between the CBT monetary board and the internal auditors. There are clear rules governing standards of conduct for employees.

Turkey's overall score is unchanged from last year.

1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES OF CENTRAL BANKS



Compliance in progress

The objectives and institutional framework of monetary policy

Central bank objectives and responsibilities

The duties and powers of the Central Bank of Turkey (CBT) are set out in the Central Bank Law, which was amended extensively through Law No. 4651 of April 2001, following the financial crises of November 2000 and February 2001. The CBT now has full instrumental independence. The Law identifies the attainment and maintenance of price stability as the primary goal of the CBT and introduced a new monetary policy-making framework, which includes the establishment of a Monetary Policy Committee (MPC) within the CBT.¹

These amendments mean that Turkey meets most of the requirements of the IMF good transparency practices for monetary policy in respect of the clarity of roles, responsibilities and objectives of the CBT. In fact, most of the changes were developed in parallel with the codes, following a consultative process with the IMF.

Under the Central Bank Law, the responsibility for setting the framework and specific targets of monetary policy (assumed to be inflation targeting and inflation targets, respectively) is shared by the central bank and the government, although the CBT decides ultimately on the implementing strategy. Article 4 states that the central bank is “to determine the inflation target together with the Government.” Furthermore, Article 22/A empowers the MPC to establish the exchange rate regime jointly with the government. Turkey now has another year of experience with the current monetary policy framework and CBT independence, and the arrangements continue to function well. Under the current law, the government has a limited ability to apply formal pressure on the central bank. The government has proved that it values the market -- there was some concern over this initially -- and is thus unlikely to pass any laws challenging the central bank’s independence.

Operational autonomy

The CBT enjoys operational autonomy in selecting and applying monetary policy instruments. Article 4 states that the CBT “shall determine on its own discretion the monetary policy that it shall implement and the monetary policy instruments that it is going to use in order to achieve and maintain price stability” and that it is to enjoy “absolute autonomy” in carrying out its duties. Article 22/A also charges the MPC with determining “the principles and strategy of monetary policy in order to achieve and maintain price stability.”

The Central Bank Law identifies additional duties falling to the CBT and its powers to achieve them. These include currency stability, acting as lender of last resort, ensuring financial system stability and granting advances to the Savings Deposit Insurance Fund (SDIF).²

The procedures for the election/appointment and terms of office of the board members, governor and vice-governors of the CBT and of the members of the MPC, as well as for the discharge of the governor and vice-governors (in case of involvement in activities incompatible with their positions) are clearly set out in the Central Bank Law.³ The government appoints the governor and the four vice-governors are appointed by the government on the recommendation of the governor. The term of office for the governor and vice-governors is five years, although the same governor can be reappointed.

Institutional relationship between monetary and fiscal operations

The Central Bank Law prohibits the CBT from extending credit to the Treasury and other public institutions, and from purchasing public debt instruments in the primary market.⁴ The only exceptions to this are advances made to the SDIF under extraordinary conditions and when the existing resources of the fund are insufficient. Such advances must be in accordance with the Banks Act and at the request of the Banking Regulation and Supervision Agency (BRSA). Open market operations are to be conducted only for monetary policy purposes and not to provide credit to the Treasury or other public institutions.⁵ There is no significant CBT involvement in the rest of the economy. The Central Bank Law sets out clearly the manner in which CBT profits are to be allocated.⁶

Agency roles performed by the central bank on behalf of the government

The CBT's agency roles as financial adviser, fiscal agent and treasurer of the government are clearly set out in the Central Bank Law.⁷ The central bank also has responsibility for establishing payment, securities transfers and settlement systems. It also regulates the money and foreign exchange markets. However, the CBT does not have any responsibility for managing domestic or external public debt.

The CBT manages the holding of auctions for Treasury domestic borrowing, including the settlement system. The central bank also operates and supervises the main (but not the sole) gross clearing system. Financial institutions may hold securities as well as money accounts with the CBT and these may be used for secondary securities market settlement purposes.⁸

2. OPEN PROCESS FOR FORMULATING AND REPORTING MONETARY POLICY DECISIONS



Compliance in progress

The framework, instruments, and targets of monetary policy

Framework and monetary targets

Since switching to a floating currency after the February 2001 financial crisis, the CBT has been following a two-pronged monetary policy framework. On the one hand, it has been abiding by nominal targets for base money, net domestic assets and net international reserves. On the other hand, it has been preparing to implement formal inflation targeting, and has been actively using interest rates as a policy tool, in line with inflation targets. Informal inflation targeting has been carried out over the last three years, and the adoption of formal inflation targeting, initially scheduled to start at the beginning of 2003, will begin in January 2006 as stated in the Letter of Intent to the IMF in April 2005.

Concerns over debt sustainability have lessened in the last year since the budget deficit is now down to 4%. More recently, CBT officials have said that debt is now no longer a constraint on the full implementation of monetary policy in the form of inflation targeting. Given its improved credibility from meeting the implicit inflation targets in recent years, most commentators judged the central bank is ready to start explicit targeting.⁹ However, some expressed concerns over the growing current account deficit and whether the CBT would still be able to target inflation if this remains a problem.

After analysing the experience of other countries and receiving technical assistance from the IMF on the more detailed aspects of inflation targeting, the CBT announced the details of its inflation targeting policy on 5 December 2005. Inflation targets will be set on a three-year rolling basis; targets (continuing to target the CPI) of 5%, 4% and 4% have been set for 2006, 2007 and 2008, respectively. Thus the target for 2009 will be announced at the end of 2006. Quarterly targets have also been set for 2006, but the year-end target will be the main priority. In the event of a deviation of more than two points either side of these targets, the CBT must provide a written explanation to the government and make a public statement on the causes, as defined by Article 42 of the Central Bank Law.¹⁰

Since early 2005, the MPC has begun meeting according to a fixed calendar, meeting on the 8th of every month at 15:00 hours, five days after the release of the monthly inflation data. Any subsequent changes to interest rates are made at 09:00 hours the following day along with a press release stating the MPC's decision. This is stated clearly on the CBT website. Under formal inflation targeting, procedures will alter slightly; meetings will take place between 17:00 and 19:00 hours and the interest rate decision will be announced immediately afterwards together with a short explanation. A 'summary of the meeting' will then be published within five days, which may evolve into the publication of full minutes and voting records, although this will not happen initially.¹¹

A new Consumer Price Inflation (CPI) series was introduced in 2005. Commentators have noted that there is not enough time series data, given that the series only begins in 2003, making it difficult to assess the extent of seasonal variations.¹²

The adoption of a floating exchange rate regime, the decision-in-principle to adopt inflation targeting, the specific nominal targets for monetary policy, and the official annual inflation targets have all been determined as part of a

wider process of negotiation between Turkey and the IMF, with which Turkey has a stand-by arrangement. These decisions have been communicated to the public consistently through the publication of letters of intent to the IMF.

Monetary policy instruments

The monetary policy instruments and operations performed by the CBT are disclosed in Part 5 of the Central Bank Law.¹³ Accordingly, the central bank may conduct open market operations against Turkish lira such as outright purchase and sale of securities, repurchase and reverse repurchase, lending and borrowing securities, and lending and borrowing of Turkish lira deposits. It may also issue liquidity bills for its own account and behalf. The transactions, which the central bank may carry out in respect of foreign exchange and gold, are also listed.

The monetary policy-making body

Monetary policy board

The amendments made to the Central Bank Law in 2001 included the establishment of a Monetary Policy Committee (MPC) and detailed its structure and functions.¹⁴ Under the Law, the committee determines the inflation target in consultation with the government; decides on the principles and strategy of monetary policy in order to achieve and maintain price stability; prepares public reports on monetary policy targets and implementation; takes necessary measures to protect the domestic and international value of the Turkish lira; and determines the exchange rate regime jointly with the government.

Membership of the MPC overlaps closely with the membership of the other organs of the CBT. The MPC is chaired by the governor and comprises four vice-governors, one elected member of the CBT board who is elected to the MPC by the board, and one co-opted expert appointed by a joint decree for five years on the recommendation of the governor. It has been suggested that the co-opted member should become a truly independent member who retains a position outside the central bank, and that there should be more independent members with shorter terms of office. This would add expertise to the MPC and increase its independence. However, any such changes would require a parliamentary act.¹⁵ The five-year term of the Central Bank Governor Sureyya Serdengeçti ends in March 2006.

Some commentators stated that the MPC is not always easy to distinguish from the Board of the CBT (required since the central bank is a joint stock company). In practice, the MPC handles monetary policy matters, with the board responsible for policy implementation and the administration of the central bank.¹⁶ The CBT Board has operational functions with regards to all duties assigned to the CBT, whereas the MPC may be perceived as a 'decision-making unit' with regards to monetary policy issues.

The undersecretary of the Treasury, or a nominated deputy, is entitled to take part in MPC meetings, but may not vote. The MPC can therefore also play a role in macroeconomic policy coordination. The central bank and its governor have asserted an independent line in their policy statements, regularly warning the government to abide by strong fiscal and structural reform policies. Occasional demand from some members of the government for more rapid rate cuts has been resisted without difficulty.¹⁷

Advance meeting schedule

The MPC meets regularly on the 8th of each month and this is stated clearly on the CBT website. Following the introduction of formal inflation targeting, the MPC will continue to meet twelve times a year; the dates for 2006 have been announced and the first meeting is on 23 January 2006. A press statement is now made on the interest rate decision whether or not rates have been changed or left unaltered.¹⁸

Public statements on monetary policy

Periodic publications

According to the Central Bank Law, the MPC is to decide which of its decisions should be communicated to the public. Matters that the MPC wishes to publish should be printed without delay in the *Official Gazette*.¹⁹ According to commentators, over the last four years the CBT has increased its communication efforts.

It has developed a twice-monthly *Survey of Expectations* among analysts from the financial and corporate sectors. The survey covers end of month and end of year expectations for GNP growth, and both end of month and end of year expectations for the US dollar exchange rate, money market interest rates and bond yields, and the expectations for consumer price inflation and current account. This survey is in addition to the regular *Business Tendency Survey*, which tests the expectations of about 500 business and industry respondents for short and medium-term wholesale price inflation. The results of both surveys are posted regularly and promptly on the CBT website. The bimonthly *Survey of Expectations* has gained a high profile and is very closely followed. It gives good visibility to the actions of the CBT and help banks to follow general sector expectations. The results are usually available within two to three days.

The CBT has also issued regular inflation commentaries known as *Inflation and Outlook* within days of the publication of each set of monthly inflation data by the State Institute of Statistics. These commentaries assess the reasons for current levels of inflation and they also consider the prospects for achieving inflation targets given current trends and the results of the central bank's surveys of inflation expectations. The commentaries highlight the factors likely to affect decisions concerning the central bank's short-term money market interest rates, and have therefore made interest rate moves more predictable in direction and levels, if not in timing. Their publication in 2005 generally coincided very closely with interest rate decisions. The CBT's inflation expectations have been well received by the banking sector, which has found them to be very useful and reliable. In 2006, the publication of a summary of each MPC meeting is expected to take the place of the *Inflation and Outlook* reports.

Other periodic publications include a quarterly *Monetary Policy Report*, a daily *Analytical Balance Sheet* (published daily on the CBT website), a monthly *Balance of Payments Report* published for the first time in 2003, the *Company Accounts*, and the *Real Effective Exchange Rate*. The central bank has a new consumer tendency or confidence survey, which commenced in 2004 in collaboration with the SIS.²⁰ It also has a monthly composite leading indicator report, which started towards the end of 2003. From January 2006, the central bank will begin to release a quarterly *Inflation Report* -- replacing the current *Monetary Policy Report* -- which will include detailed analysis of the next quarter, a medium-term outlook, followed by forecasts of inflation over the next 18 months together with risks to these forecasts. There are also plans to make these reports timelier, as there is currently a one month lag, in order to make them more useful to financial markets.

Public hearings

In addition to the above, the CBT has issued explanatory statements via its website and the media when introducing or discontinuing specific practices (such as foreign exchange purchase auctions or Turkish lira deposit auctions). From time to time, it has issued more general statements explaining its policies, including detailed policy statements close to each New Year.

Regulations on data reporting by financial institutions to the central bank

The Central Bank Law authorises the central bank to collect statistics on the financial system and other data necessary to follow a monetary policy aimed at price stability. The CBT produces guidelines for banks on how to collect and categorise data, which can be obtained from its Statistics Department.²¹

3. PUBLIC AVAILABILITY OF INFORMATION ON MONETARY POLICY



Compliance in progress

Release of central bank data

Turkey subscribes to the IMF Special Data Dissemination Standard (SDDS) and meets its specifications for the coverage, periodicity and timeliness of central bank accounts and banking sector accounts. The CBT has long published regular balance sheets and other relevant data. Much of this information is contained in the CBT's *Weekly Press Bulletin* (WPB), which is available on its website.²² Each WPB contains data on the money supply, the CBT balance sheet, international reserves, exchange rates, transactions in inter-bank and foreign exchange markets and the deposits, repos, credits and securities portfolios of the banking sector. Information on money market interest rates and the results of auctions for public borrowing instruments are made available immediately to interested parties and are also published in the WPB. The CBT also publishes a *Quarterly Bulletin*, which covers much the same ground as the WPB, and an *Annual Report*. The *Annual Report* includes comprehensive and informative commentary. Both the *Quarterly Bulletin* and the *Annual Report* are available via the CBT website. A flexibility option has been taken for the timeliness of full information on analytical banking sector accounts -- some data is published two or even three months after the reference month.²³

The central bank balance sheet

The CBT releases its summary balance sheet in several formats one week after the reference week as part of its *Weekly Press Bulletin*. This includes information on reserve money, net domestic claims on the general government and the banking sector, open market operations, and the central bank's net external position. More detailed information is included in the *Quarterly Bulletin* and *Annual Report*. The latter also contains analysis of the trends in individual balance sheet items and annual information on selected CBT transactions including inter-bank money market transactions and open market operations.

Lender of last resort

According to Article 40 of the Central Bank Law, the central bank may provide daily or end-of-day credit facilities to the system against collateral so as to eliminate the technical payment problems that may obstruct the efficient functioning of the financial markets, and the temporary liquidity shortages that may cause interruption in the payments system. In addition, the Banks Act authorises the CBT to grant advances to the SDIF under extraordinary conditions, and in cases when the resources of the fund are insufficient, if requested by the Banking Regulation and Supervision Agency (BRSA). The maturity, amount, repayment procedures and conditions, the interest rate of the advance granted and other issues shall be determined by the central bank in consultation with the BRSA.

In this context, the central bank may extend credit to banks that are the subject of uncertainty and lack of confidence in the event of an acceleration of fund withdrawals, and/or uncertainty and lack of confidence in the banking system. In the event of bankruptcy, the CBT is legally empowered as a privileged creditor for the amount of the credit extended and the interest pertaining to it. CBT transactions are all included in its balance sheet, which is available to the financial sector and the general public. Statements on the CBT's operations as lender of last resort are issued through financial telecommunication channels (like Reuters) and the Internet.²⁴

Public information services

The CBT website includes the text of the Central Bank Law, information on the way the central bank is organised, details of payments systems, monthly balance of payments data, and frequent press releases, including the text of speeches by the governor and occasional statements explaining the CBT's policies. Governor Sureyya Serdengeçti has addressed various gatherings, including meetings of industrialists and businessmen in the provinces, on the role of the CBT and related issues. The CBT has a Communications Department for public relations, which aims to inform the public and increase the transparency of the CBT's policies.²⁵

A wealth of statistical data produced and/or compiled by the CBT is accessible to the public on the Electronic Data Delivery System (EDDS) -- a data dissemination system available via the Internet. The CBT website is comprehensive and user-friendly.

The CBT is perceived as responsive and transparent in producing comprehensive data and information. Communication is now more regular and statements follow the scheduled MPC meetings.

4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY BY THE CENTRAL BANK



Compliance in progress

Accountability before a designated public authority

The Central Bank Law requires the MPC to provide the government with information on monetary policy targets and progress towards their attainment. In practice, the CBT governor participates in meetings of cabinet sub-committees, including the Supreme Planning Board. The governor can also be asked to attend cabinet meetings. In addition, under Article 42 of the Central Bank Law, the governor must submit a report to the Council of Ministers on monetary policy and the general operations of the CBT every April and October.

Article 42 also obliges the governor to furnish information on the CBT's operations to the parliamentary Planning and Budget Committee (PBC) twice a year. This is the largest of the National Assembly's standing committees, with representatives from all parliamentary parties. When the governor and other officials appear before the PBC, this is accepted as parliamentary reporting.

Financial statement

Audited financial statement

The Central Bank Law obliges the CBT to submit its balance sheet and income statement to the Prime Minister along with its *Annual Report*, and to have its balance sheet published in the *Official Gazette*.²⁶ It also obliges the CBT to publish brief statements of account on a weekly basis, and specifies what these should contain.²⁷ The weekly balance sheet and statement is published on the CBT website as part of the its WPB. The *Annual Report*, also published on the website, contains a detailed balance sheet.

The CBT maintains its books of account and prepares its statutory financial statements in accordance with Turkish Commercial Practice and Tax Legislation and Law No1211 of the Central Bank Law. According to Articles 57-58 of the Central Bank Law, the accounting period of the central bank is the calendar year. At the end of each calendar year, the central bank submits its balance sheet and income statement to the Prime Minister along with the *Annual Report* prior to the PBC meeting and publishes the balance sheet in the *Official Gazette*.²⁸

External and internal audit

Since 2001, the Central Bank Law has required an external audit of the balance sheet and income statements.²⁹ Independent audits of central bank balance sheets, and profit and loss statements for 2000-2004 were carried out by Deloitte Touche Tohmatsu and are published on the CBT website. The results were presented and audited according to both Turkish Accounting Standards and International Accounting Standards.³⁰ The terms of external audits now include assessing the conformity of the figures, which the CBT reports for base money, net international reserves and net domestic assets with the audited accounts. These data are used as benchmarks for assessing Turkish conformity with the terms of its IMF accords.

In addition, the CBT has an Audit Committee appointed by shareholders.³¹ Members have the right to see all information and documents they request. The committee reports to the Prime Minister and the CBT board.

It has become a standard IMF procedure to carry out a ‘safeguards assessment’ of the central banks of countries receiving IMF lending. To this end, a plan was drawn up in early 2002 to “further improve the transparency and effectiveness of the CBT’s control, accounting, reporting and auditing systems.”³² Measures included expanding the role of the Audit Committee and reorganising the internal audit function by adopting a new charter detailing the mission, scope, accountability, independence, responsibility and authority of the audit function, and by formulating an implementation plan identifying staffing levels, reporting lines, and risk assessment methodologies.

It was subsequently decided that the Audit Committee would meet twice a year with the external audit firm and also with a new internal audit department. The committee would also review the CBT’s overall risk management practices and systems of internal control.³³ In line with the programme commitments to the IMF, on October 22, 2002 a new Internal Audit Department was established and a General Manager and Deputy General Manager were appointed. An internal audit charter, which identifies the mission, scope, accountability, independence, responsibility and the authority of the internal audit function in line with the Standards for the Professional Practices of Internal Auditing of the Institute of Internal Auditors, was adopted. The Internal Audit Regulation which details the scope and tasks of internal audit, recruiting and training principles of staff, reporting lines, and the methodology of risk-based internal audit, came into force in December 2002. The Internal Audit Department is now fully functional and the preparation of an internal audit manual continues. With the recruitment of seven assistant auditors the personnel of the department has reached sixteen. The CBT considers it has sufficient resources to deal with the expanded range of audit -- and also publishing -- activities.³⁴

Conduct of officials

Standards of conduct for the board, the MPC, the Audit Committee and the governor are set out in the Central Bank Law.³⁵ The Law also contains provisions for other central bank personnel, including responsibilities for secrecy in carrying out their duties and penalties for offences such as embezzlement and the disclosure of information for personal gain.³⁶ The members of the board, the governor and vice-governors and the other member of the MPC are prohibited by law from engaging in trade or becoming shareholders of banks or companies.³⁷ Governors and vice-governors may be discharged if they have been engaged in these activities.³⁸ Board members are barred from discussing or voting on credit issues concerning themselves or persons with whom they have relationships of interest or kinship.³⁹

The CBT has an internal code of conduct for its employees. This has not been made public, but details have been provided to the Bank of International Settlements.⁴⁰ Prosecutors in Turkey are allowed to prosecute civil servants in connection with their conduct in office only with the consent of the senior officials to whom they report. In the case of CBT staff, this means the governor or, for top officials, the prime minister.

INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Turkey between 3 and 7 October 2005.

Central Bank of Turkey

5 October 2005

Fatih Ozatay	Vice Governor	
Sebnem Ozbek Uygun	Legal Counsel	
Osman R Gunver	Legal Advisor	
Erhan Yazgan	Assistant General Manager	Internal Audit Department

Ministry of Finance

4 October 2005

Abdulkadir Goktas	Head of Department	General Directorate of Budget & Fiscal Control
Meral Demir	State Budget Expert	General Directorate of Budget & Fiscal Control

Treasury

5 October 2005

Memduh Aslan Akcay	Director General
G Banu Kucukyumuk	Senior Associate
M Coskun Cangoz	Deputy Director General

ADDITIONAL INTERVIEWS

3 October 2005

Tugrul Belli	General Secretary	Turkish Bank
Sertan Kargin	Chief Economist	Yatirim Finansman Securities
Murat Tanriover	Assistant General Manager	Yatirim Finansman Securities
Tanju Uygurcetin	Head of Corporate Finance	Yatirim Finansman Securities
Ali Kerim Akkoyunlu	Head of Research	Yatirim Finansman Securities

5 October 2005

Erol Akbulut	Deputy Secretary General	Turkish Court of Accounts
Feyzullah Okumus	Senior Auditor	Turkish Court of Accounts

6 October 2005

Hugh Bredenkamp	Senior Resident Representative	IMF
Rodrigo Chaves	Lead Economist	World Bank
Mediha Agar	Economist	World Bank
Güven Sak	Director	TEPAV-Economic Policy Research Institute
Emin Dedeoğlu	Programme Director, Governance Studies	TEPAV-Economic Policy Research Institute
Nahit Bingöl	State Planning Organisation	Government of Turkey

NOTES

¹ Central Bank Law, Article 4, Paragraph 1.

² The SDIF is the institution that takes over banks deemed unsound by the banking sector watchdog, the Banking Regulation and Supervision Agency (BRSA). The SDIF may, under the terms of the Banks Act, reduce or suspend reserve requirements for such banks. However, it must first seek the opinion of the CBT. The SDIF's power to take decisions on reserve requirements cannot be used for any other purpose than rehabilitating banks that are not sound. CBT officials and Turkish private bankers say that this power of the SDIF does not compromise the CBT's sole authority over the use of monetary policy instruments.

³ Central Bank Law, Articles 19, 20, 22, 22A, 25, 28, 29.

⁴ Central Bank Law, Article 56.

⁵ Central Bank Law, Article 52.

⁶ Central Bank Law, Article 60.

⁷ Central Bank Law, Article 41.

⁸ *Bank for International Settlements Turkey Red Book*, January 2000, www.bis.org/publ/cpss36.pdf

⁹ Interviews in Turkey, 3-7 October 2005.

¹⁰ Interviews in Turkey, 3-7 October 2005.

¹¹ Interviews in Turkey, 3-7 October 2005.

¹² Interviews in Turkey, 3-7 October 2005.

¹³ Central Bank Law, Articles 45-55.

¹⁴ Central Bank Law, Article 22A.

¹⁵ Interviews in Turkey, 22-24 November 2004.

¹⁶ Under the law, the board has the responsibility to "take decisions concerning monetary policy which may be implemented and monetary policy instruments which may be utilised" as well as to take decisions in areas such as acting as a lender of last resort or extending advances to the SDIF. Central Bank Law, Article 22, paragraph 1, (a) and (d).

¹⁷ Interviews in Turkey, 22-24 November 2004.

¹⁸ Interviews in Turkey, 3-7 October 2005.

¹⁹ Central Bank Law, Article 22A.

²⁰ Interviews in Turkey, 22-24 November 2004.

²¹ Interviews in Turkey, 3-7 November 2002.

²² See <http://www.tcmb.gov.tr/yeni/eng/index.html>

²³ Information supplied by Turkey as a subscriber to the SDDS: <http://www.die.gov.tr/TURCAT/turcat.html>

²⁴ Central Bank Law, Article 40.

²⁵ Interviews in Turkey, 3-7 November 2002.

²⁶ Central Bank Law, Article 58.

²⁷ Central Bank Law, Article 63.

²⁸ www.tcmb.gov.tr/yeni/eng/index.html

²⁹ Central Bank Law, Article 42.

³⁰ Interviews in Turkey, 20-24 October 2003.

³¹ Central Bank Law, Articles 23, 24.

³² Letter of Intent to the IMF of April 3, 2002, Paragraph 19.

³³ Interviews in Turkey, 3-7 November 2002.

³⁴ Interviews in Turkey, 22-24 November 2004.

³⁵ Central Bank Law, Articles 19, 24 and 27 respectively.

³⁶ Central Bank Law, Article 35.

³⁷ Central Bank Law, Articles 19, 22, 27, 29.

³⁸ Central Bank Law, Articles 28, 29.

³⁹ Central Bank Law, Article 21.

⁴⁰ Interviews in Turkey, 22-24 November 2004.